



CREDA
Colorado River Energy Distributors Association

April 25, 2005

ARIZONA

Arizona Municipal Power Users Association

Arizona Power Authority

Arizona Power Pooling Association

Irrigation and Electrical Districts
Association

Navajo Tribal Utility Authority
(also New Mexico, Utah)

Salt River Project

COLORADO

Colorado Springs Utilities

Intermountain Rural Electric Association

Platte River Power Authority

Tri-State Generation & Transmission
Association, Inc.
(also Nebraska, Wyoming, New Mexico)

Yampa Valley Electric
Association, Inc.

NEVADA

Colorado River Commission
of Nevada

Silver State Power Association

NEW MEXICO

Farmington Electric Utility System

Los Alamos County

City of Truth or Consequences

UTAH

City of Provo

Strawberry Electric Service District

Utah Associated Municipal Power Systems

Utah Municipal Power Agency

WYOMING

Wyoming Municipal Power Agency

Leslie James

Executive Director

CREDA

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Honorable Gail Norton, Secretary
Department of the Interior
VIA FAX

Dear Secretary Norton:

It is our understanding that on or about April 26, 2005, the seven Colorado River Basin States may submit to you comments regarding whether the runoff forecast warrants an adjustment to the release amount from Lake Powell for water year 2005. We are writing to alert you to another drought related issue that the Colorado River Energy Distributors Association (CREDA) believes requires your immediate attention.

CREDA is a non-profit Colorado corporation comprised of Colorado River Storage Project (CRSP) firm electric service customers in the states of Arizona, Colorado, Nevada, New Mexico, Utah and Wyoming. CREDA members are all non-profit entities, including joint action agencies, state agencies, political subdivisions, tribal utility authorities, municipalities, rural electric cooperatives and irrigation and electrical districts. CREDA members represent the majority of the CRSP customers and serve over four million consumers. CREDA initiated a dialogue over a year ago with the Bureau of Reclamation (Bureau), Western Area Power Administration (Western) and state water interests to consider drought impacts to power production and the Upper Colorado River Basin Fund (Basin Fund). CREDA participates in the Annual Operating Plan stakeholder process, the Glen Canyon Adaptive Management Work Group and the Upper Basin Endangered Fish Recovery Program, as well as the annual work program review process with Western and the Bureau.

Section 7 of the CRSP Act of 1956 requires that the "hydroelectric powerplants and transmission lines...be operated...so as to produce the greatest practicable amount of power and energy that can be sold at firm power and energy rates...". Section 5 of that Act established the Basin Fund and requires that all revenues collected in connection with the operation of the CRSP and participating projects be credited to that Fund.

Due to the on-going drought, the Basin Fund -- which finances repayment of the federal investment in power facilities and operation, maintenance and replacement (OM&R) activities at Glen Canyon Dam and the other power facilities of the CRSP -- is close to insolvency. Unless immediate action is taken, the Basin Fund will not be able to cover annual OM&R expenses, repay the capital costs of the power features of the CRSP or fund three important non-power programs now funded by power revenues: the Colorado River Salinity Control Program, the Glen Canyon Adaptive Management Program and the Endangered Fish Recovery Programs of the Upper Colorado River and San Juan Basins. The costs associated with these non-power programs are nearly \$20 million per year.

CREDA is deeply concerned the Basin Fund may not have sufficient revenues to cover the annual OM&R costs of the CRSP and to repay the capital

costs of the project. We are also concerned that, if the Fund is depleted, the non-power programs currently funded with CRSP power revenues will go unfunded, to the detriment of many interests in the Upper Basin states.

CRSP customers have already borne the financial brunt of the ongoing drought. Just two years ago, a 17% rate increase was imposed. In addition, beginning October 1, 2004, energy reductions of 26% were imposed. And the comment and consultation process for yet another rate increase (24%) just closed last week, with the increase to take effect October 1, 2005. And yet, funding for these non-power programs has continued with no reduction, which has in part created a severe cash flow situation in the Basin Fund. Ongoing rate increases could render the CRSP resources uneconomic, with customers having no choice but to pass those increased costs on to their consumers. For most of the CRSP customers, particularly the 55 Native American customers who became CRSP customers on October 1, 2004, this cost would be prohibitive and would defeat any potential benefit the federal resource is intended to provide.

CREDA urges the Department of the Interior to immediately seek appropriations for the non-power programs now financed with Basin Fund revenues. Further, CREDA believes that future use of revenues from the Basin Fund for non-power purposes should be limited to those situations where the use of power revenues is mandated by law, not when such use is merely permitted. For example, the Glen Canyon Adaptive Management Program authorizes, but does not mandate, the use of CRSP power revenues for program funding. Similarly, the Endangered Fish Recovery Program legislation requires the Bureau and the Western to seek appropriations in times of financial need. To the best of our knowledge, neither the Bureau nor Western has requested such appropriations, despite the congressional directive. Furthermore, these programs are for the benefit of an entire population, and should be funded as such, not by a restricted pool of recipients of federal hydropower.

CREDA also urges the Department to seek appropriations to fund OM &R at CRSP facilities when the Basin Fund is not adequate to cover these costs. Consideration could be given to the establishment of a "trigger", such as when the Bureau's 24-month hydrology indicates minimum power pool conditions at Lake Powell.

Our review of the legislative history of the CRSP indicates no one contemplated, or could have been reasonably expected to contemplate, this drought situation and the ensuing economic and financial impacts to CRSP power customers. This situation deserves immediate attention and assistance.

I am enclosing a copy of a Drought White Paper that CREDA prepared in March of this year, which provides additional information about these critical issues. Also enclosed is a resolution passed by the Colorado River Water Users Association in December 2004, supporting our request.

We would also like the opportunity to discuss these issues with you or your staff at your earliest convenience.

Sincerely,

/s/ Leslie James

Leslie James
Executive Director

Cc: CREDA Board
John Keys III
Michael Hacskaylo
AZ, CO, NV, NM, UT, WY Congressional Delegations

DROUGHT IN THE COLORADO RIVER BASIN

THE COLORADO RIVER STORAGE PROJECT (CRSP)

The CRSP was authorized in the Colorado River Storage Project Act of 1956 (P.L. 485, 84th Cong., 70 Stat. 50), as a multi-purpose federal project. The Act defined project purposes as flood control, water storage for irrigation, municipal and industrial purposes and the generation of electricity. Recreation and environmental mitigation and protection were added as project purposes later, but were not added to all of the features that make up the CRSP.

The CRSP power features include five dams and associated generators, substations, and transmission lines. Glen Canyon Dam is located near Page, Arizona and is by far the largest of the CRSP projects. Glen Canyon consists of eight generators for a total of about 1300 MW, which is more than 76% of the total CRSP generation. Flaming Gorge Dam is on the Green River, a major tributary of the Colorado River, and is located near Vernal, Utah. Flaming Gorge has three units producing about 132 MW of generation. The Aspinall Unit includes three dams and generating plants along the Gunnison River near Gunnison, Colorado. Blue Mesa is the first dam on the river and has two units producing about 97 MW. Morrow Point is the second dam in the series and consists of two generators producing a total of 146 MW. Crystal is the final dam and has one 32 MW generator.

COLORADO RIVER ENERGY DISTRIBUTORS ASSOCIATION (CREDA)

CREDA's mission is "To preserve and enhance the availability, affordability, and value of Colorado River Storage Project facilities while promoting responsible stewardship of the Colorado River System." CREDA is a non-profit corporation, which was formed in 1978 as an association of entities who are long-term contractors for resources of the CRSP. CREDA works on behalf of its members with the Bureau of Reclamation (Bureau) and the Western Area Power Administration (WAPA) regarding issues related to the CRSP. CREDA members serve over 4 million consumers in six states: Arizona, New Mexico, Nevada, Colorado, Utah and Wyoming. CREDA members include joint action agencies, state agencies, political subdivisions, tribal utility authorities, municipalities, rural electric cooperatives and irrigation and electrical districts.

CRSP contractors pay all the power costs and approximately 95% of the irrigation costs of the CRSP, which includes construction (with interest), operation, maintenance and replacements, transmission, environmental and irrigation assistance. Beginning October 1, 2004, 55 tribes and pueblos became CRSP contractors under 20 year contracts.

DROUGHT IN THE COLORADO RIVER BASIN

The Colorado River Basin is in its sixth consecutive year of drought. In the 100 years of record keeping by the Bureau, there have never been six consecutive years of drought. Lake Powell is at its lowest level since 1969 at 3556 feet, which is 144 feet from full pool. It is approaching minimum power generation level. If this year's hydrology mirrors the past two years, this level could be reached as soon as February 2006. If minimum power generation level is reached, there will be little CRSP generation available to the CRSP contractors. This will have significant economic consequences for the CRSP contractors and the customers they serve, as well as for a number of other non-power programs that are funded with CRSP power revenues.

The Basin Fund is a revolving fund maintained by CRSP power revenues. The Basin Fund is the source of CRSP project repayment, including: repayment of the capital investment with interest, operation, maintenance and replacement expense, 95% of the irrigation investment, Bureau and WAPA employee salaries (about \$80 million annually). In addition, the Fund has been the source of funding for other "non-power" programs:

- *Approximately \$18 million for the Colorado River Salinity Control Program;
- *\$179,577,774 for the Glen Canyon Adaptive Management Program;
- *\$40,399,329 for the Upper Colorado River Basin and San Juan Basin Endangered Fish Recovery Programs.

The programs listed above total about \$20 million per year.

In addition, due to reduced generation levels from the CRSP resource, WAPA has had to purchase power on the open market to meet its contractual requirements. This year alone, they have spent \$50.5 million from the Upper Colorado Basin Fund for replacement power. In order to maintain a sufficient Basin Fund level, in October 2003, WAPA reduced energy deliveries to its customers by 26%. Each customer has had to "make up" the shortfall on its own. WAPA has also begun an approximate 24% rate increase process.

CREDA has worked with WAPA to develop a program as part of the rate process that would allow some customers to procure their own supplemental power instead of through WAPA. This would shift some of the Basin Fund risk from WAPA to the customers by allowing each customer to decide how the shortfall in CRSP generation should be made up.

Since 1998, the Basin Fund has been at risk of deficiency due to reduced generation levels, market price conditions and expenditures for environmental testing. CRSP customers have experienced increased rates and reduced energy deliveries. In the event generation ceases at Glen Canyon Dam, the CRSP rate would have to increase fourfold, which would also be approximately double the cost of energy that could be procured on the open market.

CREDA members, all non-profit entities, have no option other than to pass those costs on to their consumers. For most of the CRSP customers, particularly the 55 new Native American customers, this cost would be prohibitive, and would defeat any potential benefit the CRSP resource may provide to those customers.

NON-POWER RELATED PROGRAMS SHOULD BE FUNDED BY APPROPRIATIONS, NOT CRSP CUSTOMERS

CREDA is concerned that, when generation is ceased or close to being ceased at Glen Canyon Dam, an effort will be made to require CRSP power users to fund the non-power programs described above. This would, in effect, be a subsidy from the electric consumers in six Western states to all the parties that benefit from the Salinity Control, Adaptive Management and Endangered Species Recovery programs on the river.

Instead, the non-power programs should seek appropriations from Congress to fund activities when the Basin Fund is depleted. Further, the Basin Fund should be limited to "the basics", namely, those costs that are mandated by law to be repaid by the Fund. The Glen Canyon Adaptive Management Program authorizes, but does not mandate, the use of CRSP power revenues for program funding. The Endangered Fish Recovery Programs legislation requires the Bureau and WAPA to seek appropriations in times of financial need.

From a public policy standpoint, these programs are intended to benefit the environment, which is in the public interest, and therefore should be funded by appropriations. Providing appropriations for these programs would assist in maintaining the Basin Fund's solvency.

APPROPRIATIONS RECOMMENDATIONS

CREDA suggests that Congress immediately:

- Provide funding for Glen Canyon Adaptive Management Program costs by appropriations to Section 8, CRSP Act. (approx. \$9 M annually) – see GCPA Sec. 1807; CRSPA Sec. 5;
- Provide funding for the Upper Colorado River and San Juan Endangered Fish Recovery Programs by appropriations to Section 8, CRSP Act (approx. \$6M annually) – see (3)(d)(1) of S. 2339; and
- Provide funding for the Colorado Basin Salinity Control Program costs assigned to CRSP power revenues (approx. \$2 M annually)

Further, CREDA suggests that when the Bureau's 24-month hydrologic study indicates there will be no power generation at Glen Canyon Dam OR if the Secretary of the Interior implements an annual release amount of less than 8.23MAF, Congress provide appropriations, to be repaid by CRSP at the end of the repayment period, without interest, to fund the operation, maintenance, and replacement expenses of the Bureau and WAPA assigned to the Colorado River Storage Project (approximately \$80 million annually). Congress should also require a report to Congress if the hydrologic trigger is met. Funding would be discontinued when Lake Powell's level reaches the level agreed to by the states for 602(A) storage.

Adopted by CRWUA December 17, 2004

Resolution No. 2005-19

DROUGHT IMPACTS ON THE COLORADO RIVER STORAGE PROJECT

The United States Bureau of Reclamation (USBR) and the Western Area Power Administration (Western) should implement cost-cutting measures and strategies to improve the status of the Upper Colorado River Basin Fund and stabilize the Colorado River Storage Project (CRSP) power rate, and to work in partnership with the CRSP customers to develop an operational, financial, and rate-setting strategy that addresses the drought situation, creates a sustainable cash flow and maintains a viable power rate.

The Colorado River Water Users Association encourages the passage of federal legislation that would make available non-reimbursable appropriations to the USBR and Western; to ensure ongoing funding of CRSP operations and other required annual funding obligations.

Position Statement

Drought Impacts on the Colorado River Storage Project (Resolution No. 2005-19)

The federal CRSP hydropower and delivery systems were authorized by Congress to provide a wide range of significant benefits to millions of citizens in the West, including:

- Flood Control
- Irrigation
- Municipal water supply
- Interstate and international compact water deliveries
- Lake and stream recreation
- Blue ribbon trout fisheries
- River regulation
- Economic development
- Fish and wildlife propagation and mitigation
- Power generation and transmission

The Colorado River Basin is entering its sixth year of drought conditions. Lake Powell water storage is at the lowest since it filled in 1980, and is approaching the level where power generation will cease.

Funding for repayment of federal investment in the CRSP storage features and participating irrigation projects, and the operation and maintenance of the CRSP facilities and staff of the U.S. Bureau of Reclamation (USBR) and the Western Area Power Administration (Western) is provided through power revenues maintained in the Upper Colorado River Basin Fund.

A portion of the costs associated with the Colorado River Salinity Control program, the Glen Canyon Adaptive Management Program and the Upper Basin Endangered Fish Recovery Programs are funded through the Upper Colorado River Basin Fund.

A combination of reduced generation from the CRSP, costs associated with environmental programs and experiments, and wholesale power market conditions have resulted in unstable, non-sustainable cash flow conditions in the Upper Colorado River Basin Fund. The effective CRSP power rate is increasing while resource deliveries are declining.

As hydrologic conditions improve after the current severe ongoing drought that has plagued the Colorado River Basin and most of the western United States for the past five years, the Bureau of Reclamation should do its utmost to build reservoir conservation storage back to pre-drought conditions in each of the reservoirs which it manages.